

CHAMPION INDUSTRIES INC  
Form 10-Q  
March 16, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 000-21084

Champion Industries, Inc.

(Exact name of Registrant as specified in its charter)

West Virginia  
(State or other jurisdiction of  
incorporation or organization)

55-0717455  
(I.R.S. Employer  
Identification No.)

2450-90 1st Avenue  
P.O. Box 2968  
Huntington, WV 25728  
(Address of principal executive offices)  
(Zip Code)

(304) 528-2700  
(Registrant's telephone number,  
including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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☐ Large accelerated filer   
 ☐ Accelerated filer   
 ☐ Non-accelerated filer   
 ☒ Smaller reporting company  
 (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2016
Common stock, \$1.00 par value per share	11,299,528 shares

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Champion Industries, Inc.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## Champion Industries, Inc. and Subsidiaries

## Consolidated Balance Sheets

ASSETS	January 31, 2016 (Unaudited)	October 31, 2015
Current assets:		
Cash and cash equivalents	\$ 39,381	\$ 540,909
Accounts receivable, net of allowance of \$548,000 and \$531,000	9,255,926	8,651,745
Inventories	3,533,084	3,568,665
Other current assets	1,057,153	890,165
Current portion assets held for sale	256,832	256,832
Total current assets	14,142,376	13,908,316
Property and equipment, at cost:		
Land	1,254,195	1,254,195
Buildings and improvements	4,683,225	4,676,290
Machinery and equipment	34,208,104	34,130,233
Equipment under capital lease	72,528	72,528
Furniture and fixtures	3,739,161	3,734,959
Vehicles	2,696,061	2,756,086
	46,653,274	46,624,291
Less accumulated depreciation	(40,175,916)	(39,911,447)
	6,477,358	6,712,844
Goodwill	1,230,485	1,230,485
Other intangibles, net of accumulated amortization	1,027,320	1,057,845
Deferred financing costs	7,720	3,040
Other assets	13,315	13,996
	2,278,840	2,305,366
Total assets	\$ 22,898,574	\$ 22,926,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,963,189	\$ 4,730,286
Accrued payroll and commissions	441,508	528,855
Taxes accrued and withheld	655,317	635,131
Accrued expenses	1,857,392	1,763,929
Debt Discount (Note 5)	-	
Notes payable (Note 5)	2,140,323	1,929,358
Notes payable - related party (Note 5)	2,500,000	2,500,000
Capital lease obligations (Note 5)	16,091	15,852
Total current liabilities	12,573,820	12,103,411
Long-term debt, net of current portion:		
Notes payable (Note 5)	8,572,667	8,796,542
Capital lease obligations (Note 5)	8,414	12,528
Total liabilities	21,154,901	20,912,481

## Shareholders' equity:

Common stock, \$1 par value, 20,000,000 Class A  
voting shares authorized;

11,299,528 shares issued and outstanding	11,299,528	11,299,528
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Common Stock, Class B nonvoting stock, \$1 par  
value, 5,000,000 shares authorized,

-0- shares issued and outstanding	-	-
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Additional paid-in capital	24,279,179	24,279,179
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Retained deficit	(33,835,034 )	(33,564,662 )
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Total shareholders' equity	1,743,673	2,014,045
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Total liabilities and shareholders' equity	\$ 22,898,574	\$ 22,926,526
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See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries  
Consolidated Statements of Operations

Three Months Ended January 31,

2016

2015

Revenues:		
Printing	\$ 9,045,731	\$ 9,388,522
Office products and office furniture	6,877,641	5,411,738
Total revenues	15,923,372	14,800,260
Cost of sales:		
Printing	7,110,675	7,096,505
Office products and office furniture	5,181,525	3,954,772
Total cost of sales	12,292,200	11,051,277
Gross profit	3,631,172	3,748,983
Selling, general and administrative expenses	3,745,002	3,952,923
Loss from operations	(113,830 )	(203,940)
Interest expense - related party	(21,563 )	(20,764)
Interest expense	(148,744 )	(263,977)
Other	13,765	20,863
	(156,542 )	(263,878)
Loss before income taxes	(270,372 )	(467,818)
Income tax (benefit) expense	-	-
Net loss	\$ (270,372 )	\$ (467,818)
Loss per share:		
Basic and diluted loss	\$ (0.02 )	\$ (0.04)
Weighted average shares outstanding:		
Basic and diluted	11,300,000	11,300,000

See notes to consolidated financial statements.

## Champion Industries, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Three Months Ended January 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (270,372 )	\$ (467,818)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization	411,443	402,002
(Gain) on sale of assets	(13,375 )	-
Allowance for doubtful accounts	-	3,843
Deferred financing costs / debt discount	5,200	127,262
Changes in assets and liabilities:		
Accounts receivable	(604,181 )	443,871
Inventories	35,581	(344,616)
Other current assets	(166,988 )	(252,044)
Accounts payable	232,902	711,283
Accrued payroll and commissions	(87,347 )	(1,633)
Taxes accrued and withheld	20,186	59,325
Accrued expenses	93,463	71,907
Other liabilities	-	-
Net cash (used in) provided by operating activities	(343,488 )	753,382
Cash flows from investing activities:		
Purchase of property and equipment	(166,796 )	(447,495)
Proceeds from sale of fixed assets	34,740	-
Change in other assets	(9,199 )	-
Net cash used in investing activities	(141,255 )	(447,495)
Cash flows from financing activities:		
Proceeds from term debt	1,045,928	244,744
Principal payments on term debt	(1,062,713 )	(1,014,063)
Net cash used in financing activities	(16,785 )	(769,319)
Net decrease in cash and cash equivalents	(501,528 )	(463,432)
Cash and cash equivalents at beginning of period	540,909	818,438
Cash and cash equivalents at end of period	\$ 39,381	\$ 355,006

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation, Business Operations and Recent Accounting Pronouncements

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2015, and related notes thereto contained in Champion Industries, Inc.'s Form 10-K filed January 29, 2016. The accompanying interim financial information is unaudited. The results of operations for the period are not necessarily indicative of the results to be expected for the full year. The balance sheet information as of October 31, 2015 was derived from our audited financial statements.

Reclassifications and Revisions

Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation.

Newly Issued Accounting Standards

Effective July 1, 2009, changes to the ASC are communicated through an ASU. As of January 31, 2016, the FASB has issued ASU's 2009-01 through 2016-01. The Company reviewed each ASU and determined that they will not have a material impact on the Company's financial position, results of operations or cash flows, other than related disclosures to the extent applicable.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The Company adopted ASU 2015-01 in December 2015. This amendment did not have a material impact on the Company's financial position, results of operation, or cash flows, but will have an impact on related presentation and disclosure to the extent applicable in future periods.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 provides guidance on simplifying the measurement of inventory. The current standard is to measure inventory at lower of cost or market; where market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 updates this guidance to measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The Company adopted ASU 2015-11 in December 2015. This amendment did not have and is not expected to have a material impact on the Company's financial position, results of operation, or cash flows given the nature of the Company's business and its relatively short inventory holding period.



In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). ASU 2015-17 updates guidance on classifying deferred tax assets and liabilities from current and noncurrent to all noncurrent when a classified balance sheet is presented. The netting of deferred tax assets and liabilities to present a single amount will remain with this update. The Company will adopt ASU 2015-17 in December 2016. This amendment is not expected to have a material impact on the Company's financial position, results of operation, or cash flows, but will impact presentation of such deferred tax assets and liabilities to the extent applicable.

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

Note 2. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period and excludes any dilutive effects of stock options and warrants. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period plus the shares that would be outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. There was no dilutive effect for the three months ended January 31, 2016 and 2015.

Note 3. Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days from the invoice date. The Company encounters risks associated with sales and the collection of the associated accounts receivable. As such, the Company records a provision for accounts receivable that are considered to be uncollectible and performs a comprehensive assessment periodically utilizing a variety of historical information and specific account review. The allowance for doubtful accounts is assessed periodically based on events that may change the rate such as a significant increase or decrease in collection performance and timing of payments as well as the calculated total exposure in relation to the allowance. Periodically, the Company compares the identified credit risks with the allowance that has been established using historical experience and adjusts the allowance accordingly.

Revenue Recognition: Revenues are recognized when products are shipped or ownership is transferred and when services are rendered to customers. The Company acts as a principal party in sales transactions, assumes title to products and assumes the risks and rewards of ownership including risk of loss for collection, delivery or returns. The Company typically recognizes revenue for the majority of its products upon shipment to the customer and transfer of title. Under agreements with certain customers, custom forms may be stored by the Company for future delivery. In these situations, the Company may receive a logistics and warehouse management fee for the services provided. In these cases, delivery and bill schedules are outlined with the customer and product revenue is recognized when manufacturing is complete and the product is received into the warehouse, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant. Therefore, the Company records sales on a gross basis. Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities.

Note 4. Inventories

Inventories are stated at the lower of first-in, first-out cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Manufactured finished goods and work in process inventories include material, direct labor and overhead based on standard costs, which approximate actual costs.

At the dates indicated, inventories consisted of the following:

January 31,	October 31,
2016	2015

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Printing:

Raw materials	\$ 1,190,701	\$ 1,111,203
Work in process	647,042	599,289
Finished goods	871,252	824,689
Office products and office furniture	824,089	1,033,484
	\$ 3,533,084	\$ 3,568,665

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

## Note 5. Debt

At the dates indicated, debt consisted of the following:

	January 31, 2016	October 31, 2015
Term Note A dated October 7, 2013, due in monthly installments of \$50,000 plus interest payments equal to the prime rate of interest plus 2% maturing April 1, 2017, collateralized by substantially all of the assets of the Company.	\$ 8,600,000	\$ 8,750,000
Installment notes payable to banks, due in monthly installments plus interest at rates approximating the bank's prime rate or the prime rate subject to various floors	563,444	634,998
maturing in various periods ranging from February 2016 - January 2018, collateralized by equipment and vehicles.		
Notes payable to shareholders. The shareholder note of \$2.5 million plus all accrued interest was initially due in one balloon payment in September 2014; pursuant to Term	2,500,000	2,500,000
Note A, the maturity was adjusted to April 2015. The interest is accrued at a rate of 3.50%. See discussion on next page for more details. (1)		
Note payable to a bank, due April 2016, including interest accrued at 5.25%, collateralized by specific accounts receivable of the Company. (2)	980,000	750,000
Capital lease obligation for printing equipment at an imputed interest rate of 6.02% per annum	24,505	28,380
Note, payable to a bank in monthly installment of \$8,441 including interest at 5.00%	430,057	443,208
collateralized by equipment		
Note, payable to a bank in monthly installments of \$4,197 including an imputed interest rate of 0.0% collateralized by equipment	139,489	147,694
	13,237,495	13,254,280
Less current portion long-term debt	1,160,323	1,179,358
Less short-term notes payable to related party (1)	2,500,000	2,500,000
Less current portion obligation under capital lease	16,091	15,852
Less short-term debt (2)	980,000	750,000
Long-term debt, net of current portion and capital lease obligation	\$ 8,581,081	\$ 8,809,070
Long-term debt, net of current portion	\$ 8,572,667	\$ 8,796,542
Long-term capital lease obligation	8,414	12,528
Current portion of long-term debt	1,160,323	1,179,358
Short-term notes payable to related party (1)	2,500,000	2,500,000
Short-term debt (2)	980,000	750,000
Current portion of capital lease obligation	16,091	15,852
Total indebtedness	\$ 13,237,495	\$ 13,254,280

(1) On June 15, 2015 the Company's Board of Directors approved the conversion of the Company's \$2.5 million related party debt to Preferred Stock equity. The Preferred Stock will pay a 6.00% or 0.00% annual dividend contingent on the Company's income after income taxes. If the Company's income after income taxes is \$1.0 million or greater, the dividend rate is 6.00%; if the Company's income after income taxes is less than \$1.0 million, the dividend rate is 0.00%.

This conversion will reduce the Company's liabilities by \$2.5 million and increase its equity by \$2.5 million. In addition, this conversion will reduce the Company's annual interest expense by \$0.1 million. However, contingent on the after income tax income, this conversion could trigger the payment of an annual Preferred Stock dividend of \$0.2 million or zero. If the \$1.0 million after income tax income target is achieved, the Company's annual cash outflow would increase \$0.1 million, or decrease \$0.1 million if the \$1.0 million after income tax income target is not achieved.

This conversion is pending a shareholder vote to amend the Company's Articles of Incorporation to allow for the issuance of Preferred Stock. The proposed amendment to the Company's Articles of Incorporation was approved by the Company's Board of Directors on January 18, 2016. This was anticipated to be part of the Company's definitive Proxy Statement with respect to the Annual Meeting of Shareholders to be held on March 21, 2016, but the Company will now present the amendment at a special shareholder meeting expected to be held in May 2016. The Company will continue to accrue interest on the related party debt equal to the prime rate until such conversion has been consummated.

(2) These notes are short-term borrowings associated with large furniture projects that are on terms of 120 days or less. A portion of these borrowings were subsequently paid upon collection of the collateral in February 2016.

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

Note 6. Income taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results.

The Company reassessed its previous determination regarding its valuation allowance and although the Company has had positive operating trends, it was determined that a full valuation allowance was still warranted at January 31, 2016. The amount of deferred tax asset considered realizable could be adjusted in future periods and such adjustments may be material to the Consolidated Financial Statements.

The Company's effective tax rate for the three months ended January 31, 2016 and 2015 was 0.0%. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate, impacted by increases or decreases in the valuation allowance for deferred tax assets.

Note 7. Commitments and Contingencies

The nature of the Company's business results in a certain amount of claims, litigation, investigations, and other legal and administrative cases and proceedings, all of which are considered incidental to the normal conduct of business. When the Company determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Company will consider settlement of cases when, in Management's judgment, it is in the best interests of both the Company and its shareholders to do so.

The Company periodically assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. The Company would accrue a loss on legal contingencies in the event the loss is deemed probable and reasonably estimable. The accrual is adjusted as appropriate to reflect any relevant developments regarding the legal contingency. In the event of a legal contingency where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss may exist in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes an estimate of the aggregate of reasonably possible losses, in excess of amounts accrued, for current legal proceedings not covered by insurance is not greater than \$0.4 million at January 31, 2016 and may be substantially lower than this amount. Any estimate involves significant judgment, given the varying stages of the proceedings (including cases in preliminary stages), as well as numerous unresolved issues that may impact the outcome of a proceeding. Accordingly, Management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate. The current loss estimate excludes legal and professional fees associated with defending such proceedings. These fees are expensed as incurred and may be material to the Company's Consolidated Financial Statements in a particular period.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, Management believes that there is no accrual for legal contingencies required at this time. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be greater than the current range of estimates discussed above and may be material to the Company's Consolidated Financial Statements in a particular period.



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Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

In accordance with the provisions of the Restated Credit Agreement, the Company issued \$0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement for the benefit of the Previous Secured Lenders under the Restated Credit Agreement. The warrants expire after October 19, 2017.

The Warrants entitle the Holders thereof to purchase that number of shares of Company Class B Common Stock equal to thirty percent (30%) of the then issued and outstanding Common Stock of the Company, on a fully diluted, post-exercise basis. Based on the 11,299,528 shares of Company Common Stock currently issued and outstanding, exercise in full of the Warrants would result in the Company's issuance of an additional 4,842,654 shares to the Warrant Holders. In the event a greater number of issued and outstanding common shares exist at the time of option exercise, a greater number of options of shares of Class B Common Stock would be issuable. The Previous Secured Lenders assigned the warrants to Marshall T. Reynolds in consideration for his personal guaranty and stock pledge and security agreement to assist in facilitating the consummation of the October 2013 Credit Agreement. The Previous Secured Lenders, as Warrant Holders, were subject to the ownership limitations of the Bank Holding Company Act of 1956, as amended and regulations promulgated thereunder (the "Bank Holding Company Act") which placed limitations on their ability to control other companies. The Previous Secured Lenders/Warrant Holders requested, and the Company agreed to create a non-voting class of Common Stock, to be designated as "Class B Common Stock". The Warrants constitute the right to purchase Class B Common Stock. The warrants are exercisable solely for shares of Class B Common Stock. However, because any Class B Common Stock issuable pursuant to the Warrants may be sold by the Warrant Holders to entities not subject to the Bank Holding Company Act, or because one or more Warrant Holders may be permitted to own a limited number of voting shares of Company Class A Common Stock, the articles of amendment provide that those shares of Class B Common Stock are convertible into shares of Class A Common Stock, and vice versa, without charge. Marshall T. Reynolds, as the current Warrant Holder is entitled to convert Class B Common Shares into shares of Class A Common Stock.

As of January 31, 2016 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations:	Payments Due by Fiscal Year						Residual	Total
	2016	2017	2018	2019	2020			
Non-cancelable operating leases	\$ 377,271	\$ 423,949	\$ 334,642	\$ 230,098	\$ 77,010	\$ 32,673	\$	1,475,643
Term debt	2,029,884	8,344,299	138,654	97,644	98,352	4,157		10,712,990
Obligations under capital lease	11,977	12,528	-	-	-	-		24,505
Notes payable - related party (1)	2,500,000	-	-	-	-	-		2,500,000
	\$ 4,919,132	\$ 8,780,776	\$ 473,296	\$ 327,742	\$ 175,362	\$ 36,830	\$	14,713,138

(1) On June 15, 2015 the Company's Board of Directors approved the conversion of the Company's \$2.5 million related party debt to Preferred Stock equity. The Preferred Stock will pay a 6.00% or 0.00% annual dividend contingent on the Company's income after income taxes. If the Company's income after income taxes is \$1.0 million or greater, the



dividend rate is 6.00%; if the Company's income after income taxes is less than \$1.0 million, the dividend rate is 0.00%.

This conversion will reduce the Company's liabilities by \$2.5 million and increase its equity by \$2.5 million. In addition, this conversion will reduce the Company's annual interest expense by \$0.1 million. However, contingent on the after income tax income, this conversion could trigger the payment of an annual Preferred Stock dividend of \$0.2 million or zero. If the \$1.0 million after income tax income target is achieved, the Company's annual cash outflow would increase \$0.1 million, or decrease \$0.1 million if the \$1.0 million after income tax income target is not achieved.

This conversion is pending a shareholder vote to amend the Company's Articles of Incorporation to allow for the issuance of Preferred Stock. The proposed amendment to the Company's Articles of Incorporation was approved by the Company's Board of Directors on January 18, 2016. This was anticipated to be part of the Company's definitive Proxy Statement with respect to the Annual Meeting of Shareholders to be held on March 21, 2016, but the Company will now present the amendment at a special shareholder meeting expected to be held in May 2016. The Company will continue to accrue interest on the related party debt equal to the prime rate until such conversion has been consummated.

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

Note 8. Industry Segment Information

The Company operates principally in two industry segments organized on the basis of product lines: the production, printing and sale, principally to commercial customers, of printed materials (including brochures, pamphlets, reports, tags, continuous and other forms) and the sale of office products and office furniture including interior design services.

The Company reports segment information in a manner consistent with the way that our management, including our chief operating decision maker, the Company's Chief Executive Officer, assesses performance and makes decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC.

Our Financial Reporting systems present various data, which is used to operate and measure our operating performance. Our chief operating decision maker utilizes various measures of a segment's profit or loss including historical internal reporting measures and reporting measures based on product lines with operating income or loss as the key profitability measure within the segment. Product line reporting is the basis for the organization of our segments and is the most consistent measure used by the chief operating decision maker and conforms with the use of segment operating income or loss that is the most consistent with those used in measuring like amounts in the Consolidated Financial Statements.

The identifiable assets are reflective of non-GAAP assets reported on the Company's internal balance sheets and are typically adjusted for taxes and other items excluded for segment reporting. The assets are classified based on the primary functional segment category as reported on the internal balance sheets. Therefore the actual segment assets may not directly correspond with the segment operating loss reported herein. The Company had certain assets classified as held for sale at January 31, 2016 and 2015 of \$256,832. These assets were part of the printing segment prior to the reclassification as assets held for sale. The total assets reported on the Company's balance sheets as of January 31, 2016 and January 31, 2015 were \$22,898,574 and \$23,695,441, respectively. The identifiable assets reported below represent \$22,641,742 and \$23,438,609 at January 31, 2016 and 2015, respectively.

The table below presents information about reported segments for the three months ended January 31:

2016 Quarter 1	Printing	Office Products & Furniture	Total
Revenues	\$ 9,549,752	\$ 7,511,474	\$ 17,061,226
Elimination of intersegment revenue	(504,021)	(633,833)	(1,137,854)
Consolidated revenues	\$ 9,045,731	\$ 6,877,641	\$ 15,923,372
Operating (loss) income	(218,669)	104,839	(113,830)
Depreciation & amortization	389,804	21,639	411,443
Capital expenditures	151,235	15,561	166,796
Identifiable assets	15,596,719	7,045,023	22,641,742
Goodwill	-	1,230,485	1,230,485

2015 Quarter 1	Printing	Office Products & Furniture	Total
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Revenues	\$	9,916,899	\$	6,212,973	\$	16,129,872
Elimination of intersegment revenue		(528,377)		(801,235)		(1,329,612)
Consolidated revenues	\$	9,388,522	\$	5,411,738	\$	14,800,260
Operating loss		(93,197)		(110,743)		(203,940)
Depreciation & amortization		379,643		22,359		402,002
Capital expenditures		377,301		70,194		447,495
Identifiable assets		16,633,275		6,805,334		23,438,609
Goodwill		-		1,230,485		1,230,485

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

A reconciliation of total segment revenue, assets and operating loss to consolidated loss before income taxes for and at the three months ended January 31, 2016 and 2015 is as follows:

	Three months ended January 31,	
	2016	2015
<b>Revenues:</b>		
Total segment revenues	\$ 17,061,226	\$ 16,129,872
Elimination of intersegment revenue	(1,137,854)	(1,329,612)
Consolidated revenue	\$ 15,923,372	\$ 14,800,260
<b>Operating loss:</b>		
Total segment operating loss	\$ (113,830)	\$ (203,940)
Interest expense - related party	(21,563)	(20,764)
Interest expense	(148,744)	(263,977)
Other income	13,765	20,863
Consolidated loss before income taxes	\$ (270,372)	\$ (467,818)
<b>Identifiable assets:</b>		
Total segment identifiable assets	\$ 22,641,742	\$ 23,438,609
Elimination of intersegment assets and assets held for sale	256,832	256,832
Total consolidated assets	\$ 22,898,574	\$ 23,695,441

# Champion Industries, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### Note 9. Fair Value Measurements

There is a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and our own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 - Quoted market prices in active markets for identical assets or liabilities

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 - Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

The Company does not believe it is practicable to estimate the fair value of its variable interest-bearing debt with a private lender and its subordinated debt to a related party due primarily to the fact that an active market for the Company's debt does not exist.

The term debt not discussed herein had a carrying value of approximately \$2.1 million and the Company believes carrying value approximates fair value for this debt based on recent market conditions, collateral support, recent borrowings and other factors.

Cash consists principally of cash on deposit with banks. The Company's cash deposits in excess of federally insured amounts, to the extent applicable, are primarily maintained at a large well-known financial institution.

The carrying amounts of the Company's accounts receivable, accounts payable, accrued payrolls and commissions, taxes accrued and withheld and accrued expenses approximates fair value due to their short-term nature.

Goodwill and other intangible assets are measured on a non-recurring basis using Level 3 inputs. Goodwill is also subject to an annual impairment test. (see Note 10)

### Note 10. Acquired Intangible Assets and Goodwill

The details of the Company's acquired intangible assets and goodwill, at the dates indicated, are as follows:

	January 31, 2016		October 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortizable intangible assets:</b>				
Non-compete agreement	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Customer relationships	2,451,073	1,423,753	2,451,073	1,393,228
Other	564,946	564,946	564,946	564,946
	4,016,019	2,988,699	4,016,019	2,958,174
<b>Unamortizable intangible assets:</b>				
Goodwill	1,737,763	507,278	1,737,763	507,278

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	1,737,763	507,278	1,737,763	507,278
Total goodwill and other intangibles \$	5,753,782	\$ 3,495,977	\$ 5,753,782	\$ 3,465,452

Champion Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited) (continued)

Amortization expense for the three months ended January 31, 2016 and 2015 was \$31,000. Customer relationships are being amortized over a period of 20 years, related to the acquisition of Syscan in 2004. The weighted average remaining life of the Company's amortizable intangible assets was approximately 4 years.

Estimated amortization expense for each of the following years is:

2016	\$ 91,573
2017	122,098
2018	122,098
2019	122,098
2020	122,098
Thereafter	447,355
	\$ 1,027,320

The changes in the carrying amount of goodwill and other amortizing intangibles for the three months ended January 31, 2016 were as follows:

Goodwill:

	Printing	Office Products and Furniture	Total
Balance at October 31, 2015			
Goodwill	\$ 2,226,837	\$ 1,230,485	\$ 3,457,322
Accumulated impairment losses	(2,226,837 )	-	(2,226,837 )
	-	1,230,485	1,230,485
Goodwill acquired three months ended January 31, 2016	-	-	-
Impairment losses three months ended January 31, 2016	-	-	-
Balance at January 31, 2016			
Goodwill	2,226,837	1,230,485	3,457,322
Accumulated impairment losses	(2,226,837 )	-	(2,226,837 )
	\$ -	\$ 1,230,485	\$ 1,230,485

Amortizing Intangible Assets (net of amortization expense):

	Printing	Office Products and Furniture	Total
Balance at October 31, 2015:			
Amortizing intangible assets	\$ 354,303	\$ 703,542	\$ 1,057,845
Accumulated impairment losses	-	-	-

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	354,303	703,542	1,057,845
Amortizing intangible assets acquired three months ended January 31, 2016	-	-	-
Impairment losses three months ended January 31, 2016	-	-	-
Amortization expense	10,226	20,299	30,525
Balance at January 31, 2016:			
Amortizing intangible assets	344,077	683,243	1,027,320
Accumulated impairment losses	-	-	-
	\$ 344,077	\$ 683,243	\$ 1,027,320



Champion Industries, Inc. and Subsidiaries  
Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table sets forth, for the periods indicated, information derived from the Consolidated Statements of Operations as a percentage of total revenues.

	2016	Three Months Ended January 31,		2015
Revenues:				
Printing	\$ 9,045,731	56.8	%	\$ 9,388,522 63.4%
Office products and office furniture	6,877,641	43.2		5,411,738 36.6
Total revenues	15,923,372	100.0		14,800,260 100.0
Cost of sales:				
Printing	7,110,675	44.7		7,096,505 48.0
Office products and office furniture	5,181,525	32.5		3,954,772 26.7
Total cost of sales	12,292,200	77.2		11,051,277 74.7
G Gross profit	3,631,172	22.8		3,748,983 25.3
Selling, general and administrative expenses	3,745,002	23.5		3,952,923 26.7
Loss from operations	(113,830 )	(0.7 )		(203,940) (1.4)
Interest expense - related party	(21,563 )	(0.1 )		(20,764 ) (0.1 )
Interest expense	(148,744 )	(1.0 )		(263,977 ) (1.8 )
Other income	13,765	0.1		20,863 0.1
Loss before taxes	(270,372 )	(1.7 )		(467,818) (3.2 )
Income tax (expense) benefit	-	-		- -
Net loss	\$ (270,372 )	(1.7 )%	\$	(467,818) (3.2 )%

Champion Industries, Inc. and Subsidiaries

Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)

Three Months Ended January 31, 2015 Compared to Three Months Ended January 31, 2014

Revenues

Total revenues increased 7.6% in the first quarter of fiscal 2016 compared to the same period in 2015, to \$15.9 million from \$14.8 million.

Printing revenue for the first quarter of fiscal 2016 decreased 3.7% to \$9.0 million when compared to the first quarter of fiscal 2015 total printing sales of \$9.4 million; the decreases in printing revenue was principally due to decreased demand for sheet products across all of the Company's markets and divisions. Through implementation of Management's plan of action, we anticipate printing sales for fiscal 2016 to be in line with fiscal 2015, at a minimum.

Office products and office furniture revenue increased 27.1% in the first quarter of fiscal 2016 to \$6.9 million from \$5.4 million in the first quarter of fiscal 2015. The increase in the office products and office furniture revenues were mainly attributable to increases in sales at our Capitol Business Interiors ("CBI") divisions. This unit sells office furniture and design services associated with office design projects of both private and governmental entities. This unit's jobs are typically few in quantity but high in dollar sales volume. The CBI division does have a significant backlog and we do anticipate sales growth for fiscal 2016 when compared to the prior year. The increases in the Office Supply and Office Furniture segment from our CBI divisions were partially offset by decreases in office supply sales. While we do anticipate sales increases for this segment as a whole for fiscal 2016 when compared to 2015, the office supply sales within this segment are expected to have year over year decreases. Management is developing plans to stabilize office supply sales and reverse the declining trend.

Cost of Sales

Cost of sales increased 11.2% in the first quarter of fiscal 2016 to \$12.3 million from \$11.1 million in the same period of 2015. Cost of sales increased to 77.2% as a percentage of sales in the fiscal first quarter of 2016 compared to 74.7% during the same period last year.

Printing cost of sales in the first quarter of fiscal 2016 increased over the prior year and as a percentage of printing sales from 75.6% in 2015 to 78.6% in 2016. This increase in cost represents several factors including a larger mix of high volume lower margin printing accounts, pricing pressure from competition, a larger mix of sublet work, and relatively flat manufacturing costs allocated to cost of goods sold.

Office products and office furniture cost of sales increased \$1.2 million in the first quarter of fiscal 2016 when compared to the same period in 2015. As a percentage of office products and furniture sales, cost of sales increased to 75.3% in 2016 from 73.1% in 2015. This increase in cost of goods sold for the Office Products and Office Furniture segment was due to higher sales and a larger portion of sales derived from our CBI divisions which typically have lower gross profit margins than other business lines within this segment.

Operating Expenses

In the first quarter of 2016, selling, general and administrative (“SG&A”) expenses decreased to \$3.7 million from \$4.0 million in 2015, a decrease of \$0.2 million or 5.3%. As a percentage of total sales, SG&A decreased on a quarter to quarter basis to 23.5% in 2016 from 26.7% in 2015. The decrease in SG&A was mainly from decreased SG&A within the printing segment and higher total sales overall. The decrease in cost was due to decreases in several SG&A items including payroll, insurance, and other miscellaneous costs.

Champion Industries, Inc. and Subsidiaries  
Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)

Segment Operating (Loss) Income

The printing segment reported an operating loss in the first quarter of 2016 of \$0.2 million compared to an operating loss of \$0.1 million in the first quarter of 2015. The increase in operating loss for the first quarter compared to 2015 was from lower printing revenue and gross profit margins. The decrease in segment profitability was attributable to factors discussed in the revenue, costs of sales, and SG&A sections.

The office products and office furniture segment reported operating income of \$0.1 million in the first quarter of 2016 compared to an operating loss of \$0.1 million in the first quarter of 2015. The increase in profitability for this segment was due to increased furniture and design sales at our CBI divisions. This increase in profitability from our CBI divisions was partially offset by a decrease in profitability from other divisions within this segment.

Loss from Operations

The loss from operations in the first quarter of 2016 was \$0.1 million compared to a loss from operations of \$0.2 million in the first quarter of 2015. The decrease in operating loss is the result of the factors previously discussed.

Other Income (Expense)

Other expense decreased \$0.1 million to \$0.2 million in the fiscal first quarter of 2016 from \$0.3 million in the same period of 2015. This line item is mainly comprised of interest expense and other income. The \$0.1 million decrease is principally due to the Company no longer amortizing a \$0.5 million premium associated with its October 2013 Credit Agreement into interest expense. This premium was paid at maturity in April 2015.

Income Taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results.

The Company reassessed its previous determination regarding its valuation allowance and although the Company has had positive operating trends, it was determined that a full valuation allowance was still warranted at January 31, 2016. The amount of deferred tax asset considered realizable could be adjusted in future periods and such adjustments may be material to the Consolidated Financial Statements.

The Company's effective tax rate for the three months ended January 31, 2016 and 2015 was 0.0%. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate, impacted by increases or decreases in the valuation allowance for deferred tax assets.

Net Loss

The net loss for the first quarter of 2016 was \$0.3 million compared to a net loss of \$0.5 million in the first quarter of 2015. Basic and diluted loss per share for the three months ended January 31, 2016 and 2015 were a loss of \$0.02 and of \$0.04 per common share, respectively.



Champion Industries, Inc. and Subsidiaries  
Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)

### Inflation and Economic Conditions

Management believes that the effect of inflation on the Company's operations has not been material and will continue to be immaterial for the foreseeable future. The Company does not have long-term contracts; therefore, to the extent permitted by competition, it has the ability to pass through to its customers most cost increases resulting from inflation, if any. In addition, the Company is not particularly energy dependent; therefore, an increase in energy costs should not have a significant impact on the Company.

Our operating results depend on the relative strength of the economy on both a regional and national basis.

### Seasonality

Historically, the Company has experienced a greater portion of its profitability in the second and fourth quarters than in the first and third quarters. The second quarter generally reflects increased orders for printing of corporate annual reports and proxy statements. A post-Labor Day increase in demand for printing services and office products coincides with the Company's fourth quarter.

### Liquidity and Capital Resources

#### Statement of Cash Flows

Net cash used in operations for the three months ended January 31, 2016, was \$0.3 million compared to net cash provided by operations of \$0.8 million during the same period in 2015. This change in net cash from operations is due primarily to changes in assets and liabilities, principally timing of collection of accounts receivable and payment of accounts payable. We monitor our working capital closely and take measures to ensure we are collecting accounts in a reasonable amount of time and paying our payables likewise.

Net cash used in investing activities for the three months ended January 31, 2016 was \$0.1 million compared to \$0.4 million during the same period in 2015. The net cash used in investing activities during the first three months of 2016 and 2015 were primarily related to the purchases of equipment and vehicles. The Company replaces, repairs, or extends the life of its equipment as needed and as funds are available.

Net cash used in financing activities for the three months ended January 31, 2016 was \$17,000 compared to \$0.8 million during the same period in 2015. In 2016 and 2015 the net cash used in financing activities primarily related to payments of term debt, including repayment short-term loans used to fund large furniture projects. In 2016 the Company saw an increase in furniture projects that it chose to finance which partially offset scheduled principal payments on long-term debt as well as repayment of debt incurred for previous furniture project financing.

Champion Industries, Inc. and Subsidiaries

Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)

Liquidity and Capital Resources

As of January 31, 2016, the Company had cash of \$39,000. This is compared to \$0.5 million at the Company's fiscal year end October 31, 2015. This change is strictly timing and is dependent on collection of accounts receivable and subsequent disbursement to vendors. The Company has been able to successfully operate under this condition for almost two years, and during this time has maintained stability in payments to its vendors and thus restored its good credit standing. This has been accomplished by communicating with our vendors and establishing consistency in payment of trade payables as well as monitoring collections of trade receivables. We anticipate being able to continue this so long as we are able to keep operating losses in line with prior years, at a minimum. In the near term we believe we will be able to accomplish this and thus continue our recovery efforts.

At January 31, 2016 the Company had working capital of \$1.6 million. This working capital figure includes \$2.5 million in debt owed to the Company's Chairman of the Board of Directors that it anticipates converting to preferred equity in the near term. For more information on this conversion, please see Note 5 to the Consolidated Financial Statements.

The Company's October 2013 Credit Agreement expires April 1, 2017. At that time the Company will be required to repay \$7.9 million to its Secured Lender. The Company does not currently have a concrete plan to repay or otherwise refinance this debt as we are focusing on operations for fiscal 2016 before looking for longer term financing solutions. Our intent is to improve operations and refinance this debt on a long-term basis. In the event we are unable to do so, we do have options including asset sales to repay or substantially reduce debt making the debt potentially more attractive for financial institutions.

We believe we have the capacity to continue meeting our obligations and maintain a good credit standing as we continue to rebuild, but there are challenges associated with this in the foreseeable future; including:

- Continual management of our receipts and disbursements to improve and maintain days sales outstanding for trade receivables and days outstanding for trade payables.
  - Carefully monitor capital expenditures to assure cash flow is maximized.
- Funding necessary capital expenditures to assure the Company remains competitive and positions itself for operations beyond one year.
  - Operating the company on a working capital basis without a revolving line of credit.

The Company has historically used cash generated from operating activities and debt to finance capital expenditures. Management plans to continue making required investments in equipment based on available liquidity.

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### Champion Industries, Inc. and Subsidiaries Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

#### Environmental Regulation

The Company is subject to the environmental laws and regulations of the United States, and the states in which it operates, concerning emissions into the air, discharges into the waterways and the generation, handling and disposal of waste materials. The Company's past expenditures relating to environmental compliance have not had a material effect on the Company. These laws and regulations are constantly evolving, and it is impossible to predict accurately the effect they may have upon the capital expenditures, earnings, and competitive position of the Company in the future.

Based upon information currently available, management believes that expenditures relating to environmental compliance will not have a material impact on the financial position of the Company.

#### Special Note Regarding Forward-Looking Statements

Certain statements contained in this Form 10-Q, including without limitation statements including the word "believes," "anticipates," "intends," "expects" or words of similar import, constitute "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Such factors include, among others, changes in business strategy or development plans and other factors referenced in this Form 10-Q, including without limitations under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

#### ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

The Company's debt is primarily variable rate debt and therefore the interest expense would fluctuate based on interest volatility. The Company is exposed to market risk in interest rates primarily related to our interest bearing debt based on the prime rate. The Company does not currently utilize derivative financial instruments to manage market risk.

#### ITEM 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls were effective as of the end of the period covered by this quarterly report.

(b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting that occurred during the first three months of fiscal year 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.





PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, our Company is involved in litigation relating to claims arising out of its operations in the normal course of business. We maintain insurance coverage against certain types of potential claims in an amount which we believe to be adequate, but there is no assurance that such coverage will in fact cover, or be sufficient to cover, all potential claims. The Company is involved in various legal proceedings or claims pending against the Company that if unfavorably resolved may have a material adverse effect on our financial condition or results of operations (see other disclosure herein).

Item 1A. Risk Factors

There were no material changes in risk factors from disclosures previously reported in our annual report on Form 10-K for the fiscal year ended October 31, 2015.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits:

- |        |   |                 |
|--------|---|-----------------|
| (31.1) | Principal Executive Officer<br>Certification Pursuant to Section<br>302 of the Sarbanes-Oxley act of<br>2002 - Adam M. Reynolds                                   | Exhibit 31.1-p1 |
| (31.2) | Principal Financial Officer<br>Certification Pursuant to Section<br>302 of the Sarbanes-Oxley act of<br>2002 - Justin T. Evans                                    | Exhibit 31.2-p1 |
| (32)   | Adam M. Reynolds and Justin T.<br>Evans Certification Pursuant to<br>18 U.S.C. Section 1350 as<br>Adopted Pursuant to Section 906<br>of the Sarbanes-Oxley act of | Exhibit 32 -p1  |

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Signatures

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHAMPION INDUSTRIES, INC.

Date: March 16, 2016

/s/ Adam M. Reynolds  
Adam M. Reynolds  
Chief Executive Officer

Date: March 16, 2016

/s/ Justin T. Evans  
Justin T. Evans  
Senior Vice President and Chief Financial  
Officer

